

State Government Borrowings: 19 January'21

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6837 4433

Author:

Kavita Chacko
Senior Economist
kavita.chacko@careratings.com
91-22-6837 4426

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com
91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.

Eight states raised a total of Rs.12,206 crores at the auction of the state government securities or state development loans (SDLs) held today. This was Rs. 250 crores higher than the notified amount of the auction. The additional amount was accepted by Telangana.

So far in the current fiscal year (7 Apr'20 -19 Jan'21), 28 states and 2 UTs (Union Territories) have cumulatively raised a total of Rs.5.83 lakhs crores via market borrowings, 34% more than the borrowings in the corresponding period of 2019-20 (Rs. 4.34 lakh crores). The states have so far raised 71% of the scheduled market borrowings as per the indicative calendar for 2020-21.

The average weekly SDL borrowings so far in 2020-21 have been Rs.14,176 crores.

Table 1: Auction of State Development Loans of State Governments: 19 January'21

State	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Bihar	2000	2000	5.82	5
Goa	100	100	6.62	10
Karnataka	1000	1000	6.61	12
	1000	1000	6.6	16
Madhya Pradesh	1000	1000	6.61	16
Meghalaya	106	106	6.63	10
Telangana	750	1000	6.62	20
Uttar Pradesh	3000	3000	6.62	10
West Bengal	3000	3000	6.61	15

Source: RBI

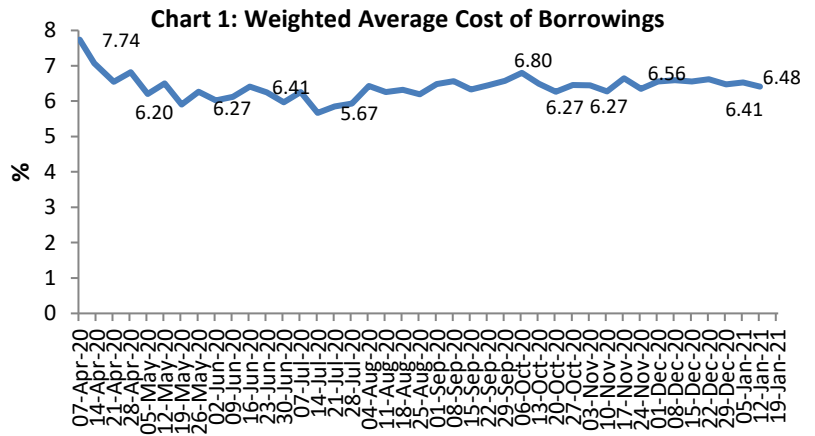
Increase in the cost of borrowings (weighted average)

- The borrowing cost for state governments at today's auction reversed the decline of week ago and rose.
- The weighted average cost of borrowing for the state government dated securities auctioned today; across states and tenures, at 6.48% was 7 bps higher than a week ago (6.41% on 12 Jan'21).

The increase in borrowing cost can be attributed to the RBI resuming normal liquidity operations after a gap of ten month in an attempt to drain the surplus liquidity in the banking system. The RBI undertook a reverse repo auction for Rs. 2 lakh crores on 15 January'21 and there are expected of more such auctions. This pushed up yields across government debt securities.

The sustained liquidity surplus in the banking system along with the OMO purchases by the RBI has been keeping yields of government securities low despite the sharp increase in supply in the current financial year.

The RBI has so far purchased SDLs of Rs.30,000 crores via OMOs, spread across 3 auctions since late October'20.

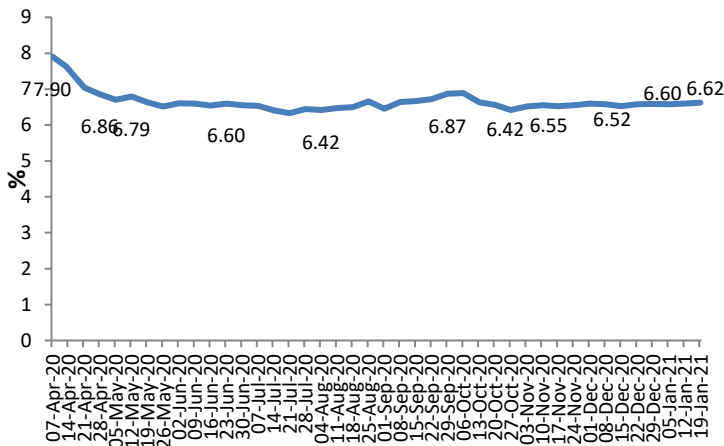


Source: CARE Ratings calculations

Widening of Spread over GSec

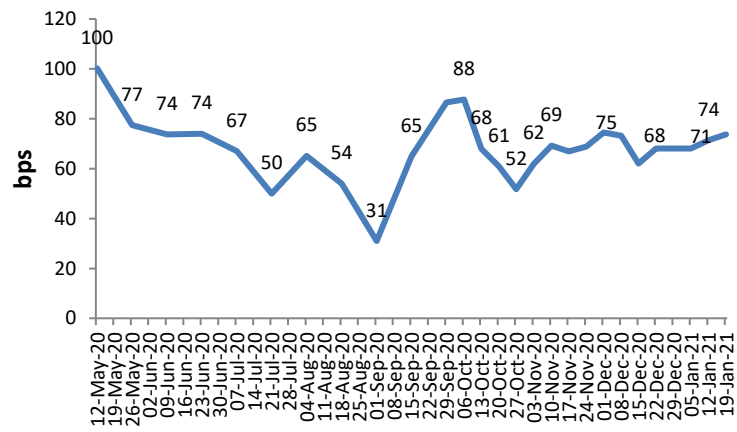
The (weighted average) yields of the 10 year SDLs (across states) at the auction held today at 6.62% was 2 bps higher than from week ago. The spread between the 10 year SDLs and GSecs rose by 3 bps to 74 bps.

Chart 2: Yield Movement : 10 year SDLs



Source: RBI and CARE Ratings calculations

Chart 3: Spread - 10 year GSec and SDL(bps)



State-wise Borrowings and weighted average cost of borrowings

States and UTs have been resorting to higher market borrowings to meet the shortfalls in their finances consequent to the sharp fall in their revenues due to the lockdown led disruptions in economic activity along with the increase in expenditure that is being incurred by them for controlling and mitigating the impact of the pandemic. The majority of the states have

seen a notable increase in their market borrowing in the ongoing financial year as against a year ago. The year-on-year state-wise increase in market borrowings has been highlighted in table 2 below.

Only Odisha (lower by 25%) and Puducherry (7% lower) has borrowed less than year ago period. Tamil Nadu, Maharashtra, Karnataka, Andhra Pradesh, Uttar Pradesh and Rajasthan have been the top six borrowing states, accounting for 55% of the total borrowings so far in 2020-21.

There has been a notable year-on-year increase in the market borrowings of large states such as Maharashtra (by 106%), Madhya Pradesh (92%), Karnataka (67%), Andhra Pradesh (43%), Telangana (51%), Rajasthan (41%), and Tamil Nadu (30%).

Table 2: State-wise market borrowings (Rs. Crores)

	FY 20 (9 April- 21 January'20)	FY 21 (7 April-19 January'21)	% change
Andhra Pradesh	32,967	47,250	43
Arunachal Pradesh	472	481	2
Assam	8,600	9,400	9
Bihar	17,642	24,000	36
Chhattisgarh	5,000	9,000	80
Goa	2,081	2,554	23
Gujarat	29,400	30,780	5
Haryana	18,001	22,500	25
Himachal Pradesh	3,500	4,000	14
Jammu & Kashmir	5,592	7,810	40
Jharkhand	2,000	5,000	150
Karnataka	34,100	57,000	67
Kerala	15,182	19,566	29
Madhya Pradesh	12,000	23,000	92
Maharashtra	31,500	65,000	106
Manipur	803	1,030	28
Meghalaya	745	1,521	104
Mizoram	450	864	92
Nagaland	650	1,284	98
Odisha	4,000	3,000	-25
Puducherry	700	650	-7
Punjab	22,055	23,723	8
Rajasthan	29,332	41,411	41
Sikkim	593	1,131	91
Tamil Nadu	51,390	67,000	30
Telangana	25,124	38,034	51
Tripura	1,680	1,713	2
Uttar Pradesh	39,500	42,000	6
Uttarakhand	2,350	4,200	79
West Bengal	37,010	40,000	8

Source: RBI and CARE Ratings

Table 3: Weighted average cost of borrowings state-wise (%)

	Apr-20	Oct-20	Dec'20	1-19 Jan'21
Andhra Pradesh	6.85	6.87	6.61	6.64
Arunachal Pradesh	7.98			
Assam	8.00	6.19	6.61	5.32
Bihar		5.34		5.77
Chhattisgarh		5.66	5.91	5.97
Goa	7.76	6.66	6.38	6.60
Gujarat	7.73	6.55	6.49	6.45
Haryana	8.00	6.72		
Himachal Pradesh		6.62	6.57	
Jammu & Kashmir	8.15	7.15	6.65	6.64
Jharkhand		6.76	6.68	6.66
Karnataka	7.87	6.66	6.59	6.61
Kerala	8.32		6.20	
Madhya Pradesh	5.89	6.96	6.65	6.61
Maharashtra	7.76	6.68		
Manipur	8.00	6.65	6.60	6.63
Meghalaya			6.60	6.63
Mizoram	7.04		6.68	6.64
Nagaland	8.00	6.91	6.62	
Odisha	5.98	6.92		
Puducherry		5.75	6.64	
Punjab	6.86		6.69	6.63
Rajasthan	7.13	6.43	6.23	6.39
Sikkim	7.14			6.64
Tamil Nadu	7.00	5.9	6.58	6.55
Telangana	7.21	6.86	6.69	6.63
Tripura		6.55	6.65	
Uttar Pradesh	7.20	6.6	6.61	6.61
Uttarakhand	7.85	6.52		6.60
West Bengal	6.85	6.87	6.66	6.62

Source: CARE Ratings calculations

In terms of the cost of borrowings, the weighted average cost of borrowings has declined across states over the months as highlighted in table 3 above. For the state with large borrowing viz. Andhra Pradesh and Telangana, the weighted average cost of borrowings has declined by 23 bps since October'20. Among the states that raised market borrowings so far in January'21, the weighted average borrowing cost has been amongst the highest for Jharkhand (6.66%) and the lowest for Assam at 5.32%.